RESERVE BANK OF FIJI

ECONOMIC REVIEW

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The recovery in the global economy is continuing. A sluggish recovery is expected in most advanced economies while many emerging and developing economies are seeing solid growth. Consequently, advanced economies are expected to grow by 2.7 percent while a 7.1 percent growth is envisaged for developing countries this year. Nonetheless, the world growth forecast remains at 4.8 percent for 2010 and 4.2 percent for 2011 as projected by the International Monetary Fund in October.

Domestically, recent macroeconomic projections reveal that the Fiji economy is projected to grow marginally by 0.1 percent this year - a more subdued outcome compared to the earlier anticipated recovery of 1.8 percent. The projected negative performances in the agriculture; transport, storage & communication; health & social work; real estate & business services and the other community, social & personal service sectors have underpinned the downward revision in this year's growth forecast. Additionally, positive performances in the manufacturing; wholesale & retail; public administration & defence; construction and the electricity & water sectors were lower than previously envisaged. For 2011 and 2012, the domestic economy is forecast to grow by 1.3 percent and 0.8 percent, respectively.

So far this year, improved performances were generally noted for the real sector. The tourism industry continues to do well. Similarly, the gold, fish, mineral water and timber industries as well as remittances continue to record higher output levels over the year. In contrast, the performance of the sugar industry remains subdued.

Strong visitor arrivals and annually higher tourism earnings underpin the positive performance of the tourism industry in the year to date. Cumulative to August, visitor arrivals rose annually by 15.5 percent. This was however, a slowdown from the annual 17.3 percent growth recorded for the year to July. In addition, tourism earnings grew annually by 27.0 percent for the January-June period. Nevertheless, against the comparable period for 2008 – Fiji's record year for tourism earnings – earnings to date were higher by 8.8 percent.

Output in the cane and sugar sectors remains subdued after five months of crushing. From June to October, cane and sugar production noted annual declines of 10.8 percent and 13.2 percent, respectively. Similarly, the TCTS ratio rose to 12.5 in October from 12.1 in the same period last year - indicative of continuous milling inefficiencies.

Consumption activity has slowly picked up in comparison to last year. Net Value Added Tax (a partial indicator of consumer spending) collections grew annually by 13.4 percent up to September 2010. Likewise, new lending for consumption purposes cumulative to October rose by an annual 1.4 percent to around $85.5 million, mainly supported by buoyant tourism activity and higher inward remittances. In contrast, imports of consumption goods declined annually by 1.6 percent cumulative to July this year due largely to base effects.

Investment has remained weak. Cumulative to July, imports of investment goods declined by 4.8 percent. In addition, new investment lending which was around $45.7 million in the January to October period, declined by 1.1 percent when compared with the same period last year.

On the external front, the merchandise trade deficit narrowed over the year by around 6.2 percent, to $920.6 million, cumulative to July. This was supported by high domestic export earnings, which grew by 10.1 percent. The increase was led by higher export earnings from mineral water, fish, timber, sweet biscuits, gold, garments and flour which more than offset the decline in earnings from sugar, molasses and coconut oil. Including re-exports, total export earnings rose by 15.9 percent over the year, compared to an 18.2 percent decline in the same period last year.

Over the same period, import payments (excluding aircraft) rose by around 2.4 percent, compared with a decline of 16.4 percent in the same period last year. The increase was led by higher payments for mineral fuels, chemicals and manufactured-miscellaneous articles. However, these increases were largely offset by declines in payments for machinery, transport & equipment and food categories. Broadly, the increase in the import of intermediate goods, by 16.8 percent, was more than enough to make up for the declines noted in investment and consumption goods. The latter two fell by 4.8 percent and 1.6 percent, respectively.

In the Banking sector, growth in broad money (M2) slowed in October to 4.7 percent, from a growth of 5.9 percent in the previous month. This was on account of the decline in domestic credit (-1.8%), led by contractions in the claims on Government (-25.5%) and claims on official entities (-20.7%).

Commercial banks' demand deposits with the Reserve Bank rose from end October by $64.8 million to $376.4 million as at 26 November, led by redemption of RBF Notes ($54.9m) and an increase in foreign reserves ($31.9m). This was offset by an increase in currency in circulation ($7.0m) and increase in the Central Account ($4.4m).

Inflation in October rose to 1.6 percent, from 1.1 percent in September. Over the month, consumer prices rose marginally by 0.2 percent led by price increases in the food (underpinned by volatile food items) and miscellaneous categories.

In the coming months, the recent structural revision in electricity tariff rates is likely to pose upward pressure on prices. However, this is expected to be offset partially by the imposition of price controls on some food items and the weak US dollar.

As at 26 November 2010, foreign exchange reserves stood at $1,297 million, equivalent to around 4.1 months of imports of goods and non-factor services.

Over the month of October, the Fiji dollar weakened against the Japanese Yen (2%), the New Zealand dollar (1.1%) and the Euro (1%). It however, gained against the US dollar (1.1%) and the Australian dollar (0.2%). Consequently, the Nominal Effective Exchange Rate (NEER)[1] index rose over the month of October by 0.3 percent, reflecting an overall marginal appreciation of the Fiji dollar against the major trading partner currencies. Similarly, on an annual basis, the NEER index rose marginally by 0.7 percent - the lowest growth since May 2010.

The Real Effective Exchange Rate (REER)[2] index rose by 0.1 percent over the month of October compared to a decline of 0.1 percent over September. This indicated some erosion in Fiji's international competitiveness against its major trading partner currencies. The loss in competitiveness was partly attributed to an increase in the domestic inflation rate from 1.1 percent in September to 1.6 percent in October. This compares to a marginal increase in the weighted average trading partner inflation rate from 1.7 percent to 1.9 percent. Similarly, on an annual basis, the REER index grew by 0.5 percent.

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[1] The NEER is the sum of the indices of each trading partner country's currency against the Fiji dollar, adjusted by their respective weights in the basket. This index measures the overall movement of the Fiji dollar against the basket of currencies. An increase in this index indicates a slight appreciation of the Fiji dollar against the basket of currencies and vice versa.

[2] The REER index is the sum of each component of the NEER index, adjusted by the relative price differential between Fiji and each of Fiji's major trading partners. The index measures the competitiveness of the Fiji dollar against the basket of currencies. A decline in REER index indicates an improvement in Fiji's international competitiveness.

FIJI: FINANCIAL STATISTICS

	Oct-10	Sep-10	Aug-10	Oct-09
KEY INDICATORS				
1. Money and Credit				
(year-on-year % change)				
Narrow Money	10.6	10.2	6.4	-3.8
Currency in Circulation (monthly average)	12.8	12.6	11.1	4.9
Quasi-Money (Time & Saving Deposits)	1.0	3.2	5.4	11.9
Domestic Credit	-1.8	1.6	0.6	3.6
2. Consumer Prices *				
(year-on-year % change)				
All Items	1.6	1.1	1.2	6.3
Food	3.9	2.5	2.5	6.5
3. Reserves				
(end of period)				
Foreign Reserves ($m)[1/2/]	1,297.3	1,192.6	1,185.9	1,025.2
4. Liquidity				
(end of period)				
Liquid Assets Margin to Deposit Ratio (%)	9.7	10.1	10.6	10.7
Banks' Demand Deposits ($m)[2/]	376.4	230.6	213.0	331.2
5. Interest Rates (% p.a.)				
(monthly average)				
Lending Rate (Excluding Staff)	7.44	7.47	7.49	7.60
Savings Deposit Rate	1.02	1.04	1.02	0.87
Time Deposit Rate	5.02	5.14	5.30	5.49
14-day RBF Note Rate (month end)	2.83	2.83	2.88	n.i.
Minimum Lending Rate (MLR) (month end) [3/]	3.50	3.50	3.50	3.00
Overnight Inter-bank Rate	n.t	n.t	n.t	n.t
5-Year Government Bond Yield	n.i	n.i.	n.i.	n.i.
10-Year Government Bond Yield	n.i	n.i.	n.i.	n.i.
6. Exchange Rates **				
(mid rates, F$1 equals)				
(end of period)				
US dollar	0.5416	0.5355	0.5133	0.5259
Pound sterling	0.3398	0.3393	0.3320	0.3178
Australian dollar	0.5536	0.5526	0.5754	0.5746
New Zealand dollar	0.7184	0.7266	0.7261	0.7177
Swiss francs	0.5323	0.5236	0.5266	0.5356
Euro	0.3889	0.3928	0.4053	0.3545
Japanese yen	43.90	43.81	43.39	48.09
7. Commodity Prices (US$) **				
(monthly average)				
UK Gold Price/fine ounce	1342.02	1270.98	1215.81	1043.16
CSCE No. 11 Sugar Spot Price/Global (US cents/Pound)	35.27	31.19	25.09	23.32
Crude Oil/barrel	82.92	77.79	76.69	73.19

n.a. - Not available/No activity

n.i. - No issues

n.t. - No trading

[1/] Foreign reserves includes monetary gold, Special Drawing Rights, reserve position in the Fund and foreign exchange assets consisting of currency and deposits actually held by the Reserve Bank.

[2/] As at 30 November, 2010.

[3/] With the introduction of the new Monetary Policy Framework on 17 May 2010, the minimum lending rate was set at 50 basis points above the Overnight Policy Rate.

Sources: [*] *Fiji Islands Bureau of Statistics*

[**] *Bloomberg*